



***Consumers Energy***

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## **House Energy and Tech Committee Testimony**

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*Garrick Rochow – Vice President of Customer  
Operations and Quality for Consumers Energy*

**Natural Gas Legislation (HB 5555-57)**

**May 13, 2014**

Good morning, Mr. Chairman and Committee members. I am Garrick Rochow, Vice President of Customer Operations and Quality for Consumers Energy. It is my pleasure to be here with you this morning. We are here to support House Bills 5555-57.

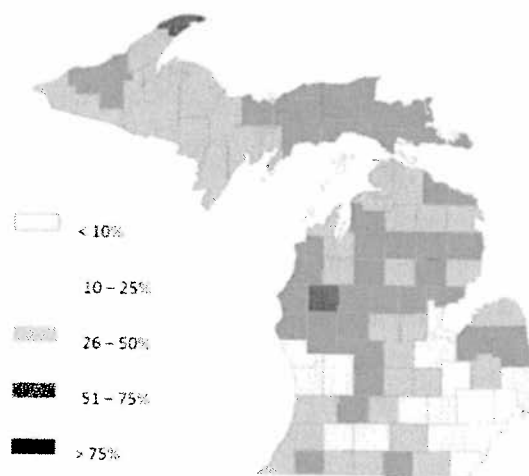
In my testimony today, I want to briefly cover the opportunity for expanding natural gas service, outline the current challenges we face today to expanding service, highlight the economic benefits of expansion, and close with our thoughts about gas safety.

### **Opportunity to Expand Natural Gas Service**

Lower natural gas prices are projected to last for the foreseeable future, with the U.S. Energy Information Administration projecting natural gas to remain 40 to 50 percent more cost effective than propane through 2040<sup>1</sup>. However, 22 percent of Michigan households were not using natural gas according to the 2010 census, and the same is true for many rural businesses. That means there is a significant opportunity for natural gas to play a key role in Michigan's economic development.

We know this winter that some residents and businesses were hit hard by the high cost of other fuel sources used for heating, most notably propane.

Percent of Michigan Households  
Heated by Fuel Other Than Natural Gas



Switching to natural gas can save Michigan residents and businesses up to 60 percent on their heating costs. Those savings would provide disposable income for residents and encourage businesses to expand, ultimately benefitting the state's economy. A typical single-family home, using 1,600 gallons of propane, would experience annual savings of approximately \$2,700 when compared with average weekly propane prices over the last three heating seasons<sup>2</sup>. The savings are equally significant for business customers, whose bulk propane rates are still typically twice the cost of natural gas. For example, a modest grain drying operation using 10,000 gallons of propane per season would see an annual savings of \$6,800 by switching to natural gas.

If this bill were passed, Consumers Energy estimates it could affordably connect as many as 60,000-70,000 customers in our service territory, representing \$160 million of potential

<sup>1</sup> U.S. Energy Information Administration. (2014). *Annual Energy Outlook 2014 Early Release* (Report No. DOE/EIA-0383ER(2014)). Retrieved from [www.eia.gov](http://www.eia.gov)

<sup>2</sup> EIA Michigan Weekly Heating Oil and Propane Prices (October-March). Released 3/19/2014

savings in annual fuel costs. In the first five years, this bill could be directly responsible for the connection of more than 15,000 additional customers. We would anticipate projects in many counties, including Van Buren, Barry, Kent, Montcalm, Saginaw, Tuscola, and Huron.

Beyond the need to expand natural gas access to unserved areas of this state, there are also areas where the gas system currently allows for reliable service, but we can't safely deliver enough gas to meet customers' demand for growth without investment to increase the system's capacity. This is most evident with groups of business customers seeking to expand their operations near the fringe of the system. Currently, we must recover the cost of increasing capacity from a small number of requesting customers. That prevents businesses from investing, growing, and creating jobs.

As utilities upgrade the natural gas infrastructure system to meet the demands of unserved and underserved customers, those upgrades also will improve the reliability of the system for a much larger number of customers.

H.B. 5555 would help ensure the availability of sufficient natural gas service for new and existing customers, helping to boost economic development.

### **Current Challenges to Expansion**

For a business or resident to receive natural gas service, new gas main must be installed which extends out to the property from the existing distribution network, similar to extending a road to serve a newly built home or subdivision. Under the current policy for expansion of the natural gas system in Michigan, these costs are entirely paid by the new, connecting customers.

As a result, many potential customers find connecting to be cost prohibitive. H.B. 5555 would allow us to support a portion of these costs, and would significantly increase the number of residents and businesses who could affordably connect to natural gas, with nominal impact on existing customers.

### **Impact & Overview of H.B. 5555**

H.B. 5555 would help utilities identify strategic investments which facilitate customer growth and provide substantial economic and system reliability benefits to the communities we serve. Additionally, the bill would allow utilities to recover the cost of the investments.

Energy providers will submit a plan of proposed projects to the Michigan Public Service Commission from which, after reviewing the cost and relevant benefits, the Commission will approve projects which are viewed as reasonable and prudent. This bill would work in

conjunction with the utilities' existing customer connection programs, to support increased opportunities for connecting customers to affordable natural gas.

It is important to recognize that the bill will not provide free connections to any customers. Instead, the legislation is designed to support investment by providing a backbone of natural gas infrastructure into unserved and underserved areas. In the event a customer attaches directly to a project funded through this program, they still would pay for their individual service connection to the main. We would apply any revenue from such a customer to the cost of the project, reducing the amount of funding necessary by our current customer base.

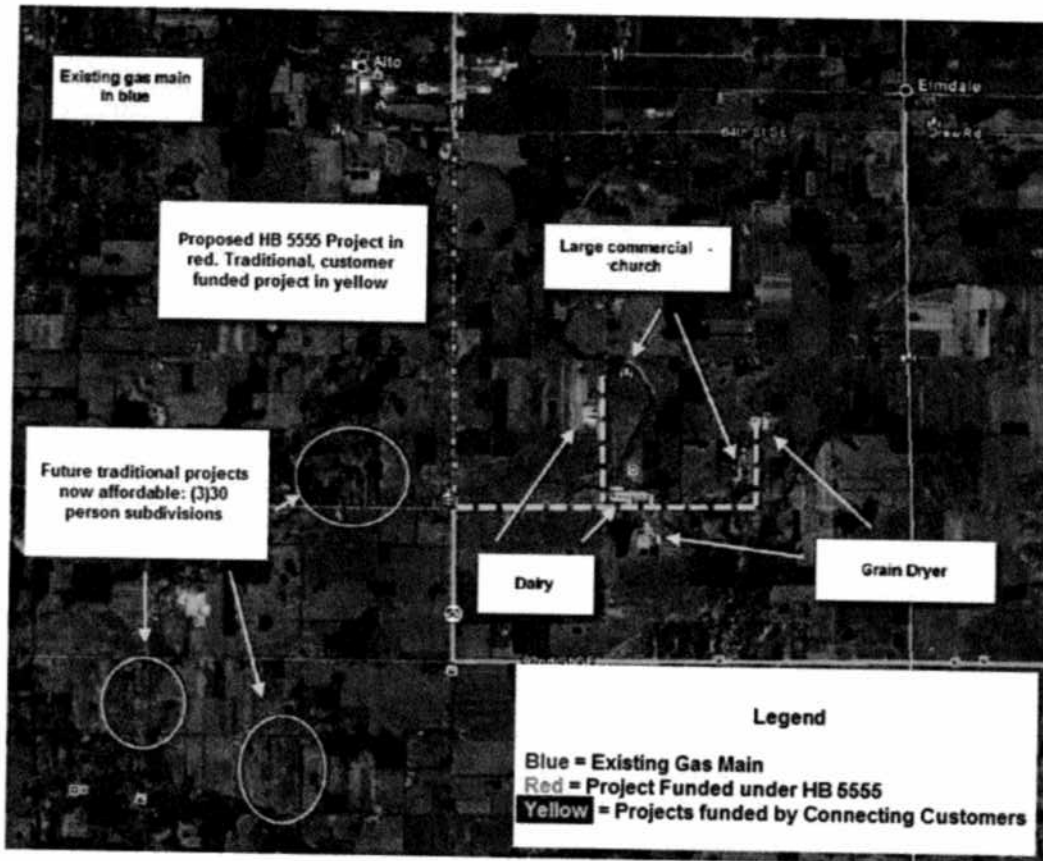
### **Economic Impacts**

This bill represents an opportunity for much more than protecting our connecting customers' pocketbooks. It is a smart economic investment for every resident in our state. The savings provide residents with additional disposable income and lower costs for businesses. In turn, businesses will see a strong incentive to invest, expand and create good-paying jobs here in Michigan. Economic modeling using the REMI (Regional Economic Multiplier, Inc.) model indicates Consumers Energy's investment alone would create economic impact of almost \$500 million in GDP growth over the next 30 years, along with 150 permanent jobs and 560 total jobs (200 of these jobs would be construction jobs).

A benefit that Consumers Energy looks forward to as a result of the legislation is an increased ability to connect to agricultural customers. Currently, both agriculture processors and farms often lack gas service and must utilize propane for activities such as grain drying. Expanding gas service to rural Michigan will support the growth of the state's agricultural industry. Agriculture remains a major economic driver of our state's economy.

Project Example: A project in Kent County provides an excellent example of how funding strategic infrastructure investments can unlock a tremendous amount of new customer connections. The cost of this project in the current model is \$350,000. By leveraging H.B. 5555 to fund a project, which would provide about 2.5 miles of main pipeline down the major road in the area, the total cost to connecting customers is reduced to \$160,000. This project would connect four large agricultural operators, several commercial businesses, and 50 residents. Additionally, three subdivisions, each with about 30 residents, could affordably connect with subsequent traditional expansion projects, funded exclusively by these connecting customers. (See Figure 1)

**Figure 1:** Alto Project (Project Overview)



## Safety

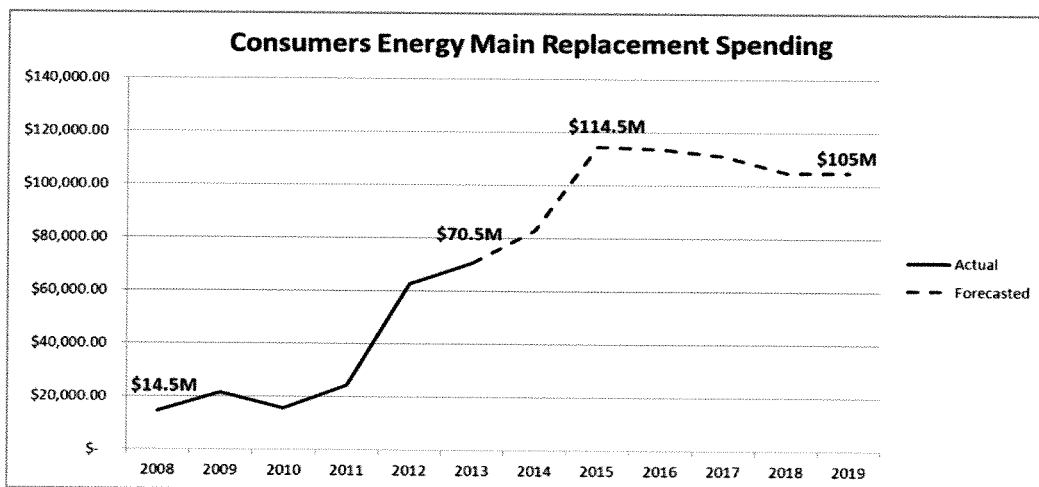
Safety is the cornerstone of Consumers Energy's business strategy. We make it a top priority to ensure that our employees, customers and communities are safe. We understand fines and penalties have not increased since 1992. We support the direction of House Bills 5556 and 5557 to raise the fines to keep pace with inflation and to ensure that Michigan's fine structure is in line with federal standards.

As written, the proposed bill before you today would deposit all fines and penalties into the state's General Fund. Instead of this approach, we suggest that money collected through fines and penalties go toward supporting public safety around gas infrastructure. This is similar to our support of efforts to allow funds to go to the MISS Dig public safety campaign. Helping to increase public awareness around gas safety is an invaluable effort that can save lives.

## Replacement of Existing Infrastructure

I understand that there has been some concerns that if we expand our gas infrastructure that we might somehow reduce our level of investment in replacing our existing gas infrastructure. I would like to assure you that at Consumers Energy we remain committed to providing significant funding for our Main Replacement program. The Main Replacement program is a focused effort to update our infrastructure, particularly in urban areas. Since our program's implementation, we have demonstrated our commitment to main replacements by significantly outpacing our investment authorized the Michigan Public Service Commission of \$56 Million. In 2013, we invested over \$70 million in main replacement work, and we anticipate increasing this investment throughout this year and up to \$115 million by 2015. (See Figure 2)

**Figure 2:** Consumers Energy Spending for Main Replacement



## Closing

In closing, Mr. Chairman and committee members, I appreciate the opportunity to speak in support of the legislation before you today. Building gas infrastructure to assist citizens throughout Michigan will play a key role in ensuring customers have safe, reliable and affordable energy service. We urge you to support this legislation and say 'yes' to investment in economic development and in the Michigan communities we both serve. Thank you